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In the Supreme Court of the United States

OCTOBER TERM, 1947

No. —

TOM C. CLARK, ATTORNEY GENERAL, AS SUCCESSOR TO THE ALIEN PROPERTY CUSTODIAN, PETITIONER

v.

STANDARD OIL COMPANY (NEW JERSEY), STANDARD OIL DEVELOPMENT COMPANY, STANDARD CATALYTIC COMPANY, AND JASCO, INCORPORATED

CONDITIONAL CROSS-PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT

The Solicitor General, on behalf of Tom C. Clark, Attorney General, as Successor to the Alien Property Custodian, has filed a brief in opposition to the petition for a writ of certiorari filed by the plaintiffs in this action (No. 576, this Term). For the reasons there stated, the Government believes that petition should be denied. If this Court should decide otherwise, however, it is suggested that there are issues in this case other than those enumerated in the petition in No. 576 which should also be reviewed by this Court. Accordingly, the Solicitor General prays that if the petition in No. 576 should be granted, such writ of

certiorari as may issue be comprehensive enough to permit review of the issues presented in this cross-petition.

OPINIONS BELOW, JURISDICTION, STATUTE INVOLVED, AND STATEMENT

The time within which to file this petition was, by order of Mr. Justice Jackson on February 6, 1948, extended to and including March 8, 1948. Other references to the jurisdiction of this Court, the opinions below, and the statute involved, as well as a general statement of the case, appear in the Brief in Opposition filed in No. 576, this Term.

QUESTIONS PRESENTED

1. Whether, in a suit in equity for the return of vested property under Section 9 (a) of the Trading With the Enemy Act, plaintiffs who do not come into court with clean hands are disqualified from recovering any of the property in suit.

2. Whether the plaintiffs' cloaking of enemy assets and other actions for the benefit and on behalf of an enemy made the plaintiffs themselves "enemies" within the meaning of that term as it is used in Section 9 (a) of the Trading With the Enemy Act and therefore disqualified them from recovering any of the property in suit, the remedy of Section 9 (a) being available only if the claimant is a "person not an enemy."

3. Whether the reservations and restrictions in certain agreements between the plaintiffs and

I. G. Farbenindustrie claimed by the plaintiffs to have transferred ownership of patents from I. G. to themselves resulted as a matter of law in the retention of ownership by I. G. and the acquisition by the plaintiffs of mere executory contractual rights.

4. Whether such executory contractual rights were cut off by reason of the illegality under the antitrust laws of the agreements upon which those rights are founded.

5. Whether the conclusion of the district court, not disturbed by the Circuit Court of Appeals, that the purported sale by I. G. to one of the plaintiffs of 200 shares of S. I. G. stock was a genuine transaction, is not clearly erroneous in view of (a) the district court's findings that other similar contemporaneous transactions were sham, (b) the close relationship between this purported sale and the sham transactions, and (c) other evidence independently showing that the purported sale was not genuine.

SPECIFICATION OF ERRORS

The court below erred:

(1) In failing to hold that the plaintiffs, by reason of action on behalf of enemies, were themselves enemies disqualified from recovering any of the properties in suit.

(2) In failing to hold that the plaintiffs were so guilty of unclean hands as to be disqualified from any recovery.

(3) In allowing the plaintiffs to recover, under the S. I. G. and Oppanol patents, licenses, licensing rights and royalty rights which were founded upon illegal agreements.

(4) In holding that the "purchase" of the S. I. G. stock in September 1939 was a genuine transaction.

(5) In allowing any recovery in this action.

DISCUSSION

The Alien Property Custodian, determining that several hundred specified United States patents in the oil and chemical fields and certain shares of stock in American corporations belonged to I. G. Farbenindustrie of Germany, issued orders vesting the stated property in the United States. The plaintiffs, four corporations referred to as the "Jersey" group, brought suit under Section 9 (a) of the Trading with the Enemy Act, as amended, to recover all of the vested property. Conceding that the property originally belonged to I. G., the plaintiffs contended that they had acquired it in good faith through a series of agreements and transactions which began in 1929 and was not completed until the entry in 1942 of a consent decree under the antitrust laws against the plaintiffs and others. In the words of the court below, the story of these agreements and transactions as presented in the record in this case "presents a fascinating picture of the interrelationships of two vast

private commercial empires, among the largest in the world, acting in hearty co-operation in division of their respective fields of operation and making and executing plans for continuance of that co-operation under the stress of developing friction and approaching war between the countries of which they were, after all, respectively nationals" (IV 1696).

It is impossible to set forth that story or even to communicate its flavor within the proper confines of a cross-petition for certiorari. For present purposes, it is enough to state summarily that the findings concurred in by both courts below establish (1) that the basic arrangements which were, in effect, the constitution by which their subsequent dealings were guided, were "interrelated and form part of one deal" (I 79); and (2) that the dealings between I. G. and the plaintiffs in respect of the property in suit were pervaded with illegality under the antitrust laws (III 1010–11), with "sham * * * designed to create an appearance of Jersey ownership of property interests which nevertheless continued to be regarded by the parties as I. G. owned" (IV 1701), with "concealment and furtiveness" (IV 1704), and with many other "instances of practical deception" (IV 1704). See also Findings of Fact and Conclusions of Law of the District Court, e. g., I 115–146. It is not surprising, in view of these unchallenged findings, that the district court should have decided against the plain-

tiffs in respect of the major part of the property in suit, and that the Circuit Court of Appeals should have affirmed the major outlines of the district court's judgment, modifying it only by reducing further the relief awarded the plaintiffs. Nor is it surprising that in consequence of such a complex of illegality, sham, concealment, furtiveness, and deception, the plaintiffs should have gotten themselves into difficulties in respect to their own property from which they cannot in good conscience expect to be extricated by a court of equity. See e. g., the Circuit Court's rejection of the plaintiffs' claim to the Jersey-originated Jasco patents (IV 1721–23). The tone of injured innocence sounding in the plaintiffs' petition is maintainable, we believe, only because the issues are not presented in their context. In this brief statement we have emphasized the aspects of the case on which the plaintiffs have been silent, because in our view they bear upon nearly every issue the courts below were called upon to decide and appear—quite properly—to have had a dominant influence upon the courts' determinations.

For the reasons stated in our Brief in Opposition, we believe that the issues raised by the plaintiffs' petition were correctly decided below, and that, moreover, they are unique issues, arising from the special relationship between this litigation and an antitrust consent decree or from the special terms of an agreement between I. G. and the plaintiffs. Since there are valuable patents

involved in this litigation which the Government is prevented from subjecting to its general patent policy,[1] the Government has a strong interest in the earliest possible termination of the litigation. For these reasons, and particularly in view of the award of the major part of the patents in suit to the Government by the decision below, the Government does not seek further review of this case. If, and only if, this Court should grant the plaintiffs' petition, does the Solicitor General request that this conditional cross-petition be granted, because in our judgment it would be inappropriate to review this case without considering the issues set forth herein.

1. *Enemy status and general equitable disqualification.*—This Court has recently indicated that the definition of "enemy" in Section 2 of the Act is to be regarded as "merely illustrative, not exclusionary." *Clark* v. *Uebersee Finanz-Korporation, A. G.*, 332 U. S. 480, 488–489. There can be no doubt on the findings below that the plaintiffs acted for the benefit and on behalf of an enemy in respect of the property in suit by attempting for the duration of the war to conceal I. G.'s continuing ownership of much of that property.

[1] This includes royalty-free licensing to all applicants of former enemy-owned patents owned outright by the Government as a result of vesting by the Alien Property Custodian. See Office of Alien Property Custodian, *Patents at Work* (1943) pp. 14–15; Annual Report, Office of Alien Property Custodian, Fiscal Year Ending June 1946, p. 97.

There can be no doubt also that in pursuance of their "scheme to deceive their government" (IV 1722), the plaintiffs engaged on I. G.'s behalf in sham transactions "of a type likely to mislead public authorities" (Fdg. 60 (a), I 125; IV 1702) and violated their obligations under statutes of the United States (IV 1722). If, as the *Uebersee* opinion suggests, "enemy" status in connection with suits under the Trading with the Enemy Act is governed by behavior seriously and directly inimical to the wartime interests of the United States rather than by the formalities of a technical definition, a grave question arises as to whether the plaintiffs are "enemies" in this sense. This Court has declared that ordinarily the "category of enemies" does not exclude "those who act with, or aid or abet and give comfort to enemies * * * though they may not be residents of enemy's territory." *Miller* v. *United States,* 11 Wall. 268, 312. In view of the findings already referred to of action by the plaintiffs in I. G.'s behalf, application of such a standard here would be fatal to the plaintiffs' standing to maintain this suit, since Section 9 (a) in terms grants the remedy of return only to a "person not an enemy."

Closely related is the question whether the illegality, sham, concealment, and disregard of national interest which characterize the transactions upon which the plaintiffs depend to establish their ownership of the property in suit destroy

the plaintiffs' standing to maintain a suit in equity in respect of that property. We submit that the classic requirement that a suitor must come to a court of equity with clean hands is, without more, a bar to the plaintiffs in this suit, which is, in the words of Section 9 (a) of the Trading with the Enemy Act, a suit "in equity."

In connection with that part of the property which the courts below found never to have become property of the plaintiffs, the disqualifications arising from enemy status and unclean hands would afford an additional ground for the result reached below. Our contention goes further, however. Even in respect of that portion of the property which the court below awarded to the plaintiffs on the ground that they had acquired ownership from I. G. in genuine transactions, we believe the plaintiffs should be held disqualified from the remedy sought. That is not to suggest that for all purposes and in respect of all of their property the plaintiffs are both "enemies" and equitably ineligible for relief. The disqualifications, we urge, would be applicable only to the property in suit, that is, only to property which was the subject matter of transactions which the district court found to be "inter-related and * * * part of one deal" (I 79). In the words of Lord Stowell:

> * * * if a neutral will weave a web of fraud of this sort, this Court will not take the trouble of picking out the threads for

> him, in order to distinguish the sound from the unsound; if he is detected in fraud he will be involved *in toto*.—A neutral surely cannot be permitted to say, "I have endeavoured to protect the whole, but this part is *really* my property, take the rest and let me go with my own:" If he will engage in fraudulent concerns with other persons, they must all stand or fall together. (*The Eenrom,* 2 Ch. Rob. 1, 9, 165 Eng. Rep. 218, 221 (High Court of Admiralty, 1799)). [Italics in original.]

We think this principle, long established in the prize law, to which the law of alien property is historically and constitutionally related (see *Stohr* v. *Wallace,* 269 Fed. 827, 840 (S. D. N. Y.)), should govern here. Cf. *The St. Nicholas,* 1 Wheat. 417; *The Fortuna,* 3 Wheat. 236; *The Peterhoff,* 5 Wall. 28, 59; *The Amiable Isabella,* 6 Wheat. 1. See also *United States* v. *One Hundred and Twenty-nine Packages,* Fed. Cas. No. 15,941 (E. D. Mo.). In the present case, since the intermingling of the property found to belong to the plaintiffs with I. G.'s property aided the concealment of the enemies' interest, all the property in suit has the taint of having been used for the benefit of an enemy and in the unconscionable transactions entered into by the plaintiffs. Hence, in suggesting that the plaintiffs' disqualifications should be comprehensive, we believe we are merely asking for the reasonable application of a salutory rule of wartime captures.

These problems—the existence and extent of disqualifications in a suit for return under Section 9 (a) where the plaintiffs have acted against the interest of the United States—are present in every cloaking case under the Trading with the Enemy Act. They are problems appropriate for consideration by this Court, therefore, if the plaintiffs' petition should be granted.

2. *The nature of S. I. G.'s rights under the Four Party Agreement.*[2]—The Court below has allowed S. I. G. to recover licensing and royalty rights in the S. I. G. patents. For reasons discussed in our Brief in Opposition (Brief in Opposition in No. 576, pp. 22–25), we think the court was clearly correct in denying the return of ownership of those patents. As we there point out, any decision that S. I. G. had acquired the ownership of the S. I. G. patents would be in clear conflict with the holding of the Circuit Court of Appeals for the Ninth Circuit in *Six Wheel Corporation* v. *Sterling Motor Truck Company,* 50 F. 2d 568, as well as with principles enunciated in *Waterman* v. *Mackenzie,* 138 U. S. 252, 255; *United States* v. *General Electric Co.,* 272 U. S. 476, 489–90, and other cases.

But we think the court below erred in failing to apply the necessary consequence of the limited character of the rights acquired by S. I. G. This

[2] The principles herein discussed are equally applicable to the "licensing and royalty rights in the Oppanol patents (IV 1721) which the court below has allowed Jasco to recover, and we assert error in that holding as well.

Court has repeatedly declared that licenses, rights to license, and rights to receive royalties under patents are merely contractual and not proprietary interests. E.g. *Waterman* v. *Mackenzie, supra; E. W. Bliss Co.* v. *United States,* 253 U. S. 187, 192; *De Forest Co.* v. *United States,* 273 U. S. 236, 242; *General Talking Pictures Co.* v. *Western Electric Co.,* 304 U. S. 175, 181. Cf. *Oliver* v. *Rumford Chemical Works,* 109 U. S. 75, 82–3. The contract pursuant to which S. I. G. acquired such rights in the S. I. G. patents—the Four Party Agreement—was declared to be illegal by the antitrust consent decree (III 1010–11). Such a decretal provision being *res judicata,* the illegality of that Agreement is a datum of this litigation between parties to that decree. Application of the ordinary rules as to the consequences of illegality would leave the plaintiffs without standing to enforce the executory contractual rights necessarily founded upon the illegal agreement. See e. g. *Bement* v. *National Harrow Co.,* 186 U. S. 70, 88; *Continental Wall Paper Co.* v. *Voight & Sons Co.,* 212 U. S. 227, 265.[3] In this

[3] This principle has repeatedly been applied to deny enforcement of provisions of patent license agreements because of the illegality of the licensing scheme. *Sola Electric Co.* v. *Jefferson Co.,* 317 U. S. 173, 177; *Katzinger Co.* v. *Chicago Metallic Mfg. Co.,* 329 U. S. 394; *MacGregor* v. *Westinghouse Co.,* 329 U. S. 402; *American Equipment Co.* v. *Tuthill,* 69 F. (2d) 406 (C. C. A. 7); *Blount Mfg. Co.* v. *Yale & Towne Mfg. Co.,* 166 Fed. 555 (C. C. D. Mass.). See *Bement* v. *National Harrow Co.,* 186 U. S. 70, 88; *Straight Side Basket Corp.* v. *Webster Basket Co.,* 82 F. (2d) 245, 246 (C. C. A. 2).

view, the Custodian as successor to I. G. in the ownership of the S. I. G. patents would be free of any contractual obligations to S. I. G. and would be entitled to keep the patents without qualifications.

To the extent that the decision below regards the interest acquired by S. I. G. in the S. I. G. patents as a proprietary interest capable of surviving the illegality of the contract by which it was acquired, it has decided an issue of general importance in the patent law, and its decision is in conflict with the well-established principles announced in the cases cited above.

If we are right in urging that the interests acquired by S. I. G. in the S. I. G. patents were merely executory and contractual, the general cautionary provisions in the consent decree saving the proprietary interests of the parties (Arts. VII, XII, III 1022, 1024)—provisions apparently designed to guard against the possibility that the antitrust consent decree would be misinterpreted as a disposition of disputes over the respective property rights of the present plaintiffs and the Alien Property Custodian—are irrelevant. But even if interpretation of these provisions is involved, it is only in connection with the determination of an issue of general significance in the patent law.

3. *The S. I. G. Stock Transaction.*—In giving effect to the purported "purchase" by Standard in September 1939 of I. G.'s 200 shares of stock

in S. I. G., both courts below, we believe, were in error. We fully recognize the heavy burden which rests upon one who asks this Court to overturn the decisions of two courts below on a question of fact, and we recognize that in this case the painstaking care generally apparent in the treatment of factual questions by both courts makes the burden in the exceptional instance heavier. Nor do we suggest that the question which we raise as to the S. I. G. shares would, as an independent matter, warrant further review. But we feel that if this Court should determine to review other aspects of this case, it would be appropriate for it to consider also whether in their disposition of these shares the courts below did not render a decision which was clearly erroneous.

The courts below rested their determinations (Fdg. 50, Conc. 21, I 113–15; IV 1708–9) as to the genuineness of this purported purchase on two factors: (1) the price paid by Standard for the shares, and (2) the finding of the district court that "there is nothing to show that the parties formally or informally tied the S. I. G. stock transaction to any other transaction" (Fdg. 50 (b), I 114). We do not dispute that the amount paid for the shares was their original cost to I. G. and was reasonably related to their artificially limited earning power (Fdg. 50, I 114). But this circumstance, while of some significance, certainly cannot control the decision whether there was an unwritten agreement to return the shares

at the end of the war. If it could, successful cloaking would be a ridiculously easy matter for parties having adequate financial resources. The crucial finding is therefore the one that this transaction was unrelated to any other.

We think this finding cannot be supported. The record contains no affirmative evidence to support it. And apart from the inherent improbability that of five transactions initiated immediately upon the outbreak of the war in Europe, one should be genuine while all the others were sham, the record contains repeated and unequivocal indications that this particular transaction was intimately related to and adopted with the same purpose and intention as others which have been held to be sham. The parallel with the parties' sham dealings with respect to the Jasco shares is particularly striking. On August 30, 1939, two days before the Germans marched into Poland, Mr. Teagle, a director and the former president of Standard, suggested that "in view of the present unsettled conditions" it might be "desirable to try and acquire" I. G.'s stock interests in S. I. G. and Jasco (P–85, III 993). The next day Jersey representatives "had a long conference" (D–392, IV 1381) with Dr. Walter Duisberg, "I. G.'s representative" (P–85, *supra*) and "a son of one of the founders of I. G. F. [who] naturally has the confidence of the I. G. F. people" (D–392, IV 1383). Two transactions were there discussed. One was that "Dr. Duisberg

purchase" the Jasco shares for $4,000, executing an option to Jasco to insure that the shares "will not fall into unfriendly hands in the event of his death" (IV 1383). The other was that Jersey purchase the S. I. G. shares for $20,000 (IV 1381). The avowed purpose of both transactions was the same. Duisberg's "purchase" of the Jasco shares was intended to "prevent their being seized by an Alien Property Custodian" (IV 1383). Of the proposed "purchase" by Jersey of the S. I. G. shares a Jersey officer similarly reported (IV 1382):

> Of course, what we have in mind is *protecting this minority interest in the event of war between ourselves and Germany* as it would certainly be very undesirable to have this 20% interest in Standard I. G. pass to an Alien Property Custodian who might sell it to an unfriendly interest. [Italics added.]

On the outbreak of the European war Mr. Howard, president of Development and a director of S. I. G. and Jasco, was in Europe (Fdg. 52, I 115). He succeeded in arranging a conference of several days' duration at the Hague, Netherlands, with representatives of I. G., beginning September 24, 1939 (Fdg. 56, I 117), to arrange a "modus vivendi which would operate through the term of the war, whether or not the U. S. came in" (P–66, III 938). At that conference I. G.'s representatives informed Mr. Howard of the "sales" of the S. I. G. shares to Standard and

the Jasco shares to Duisberg (D–578, IV 1559, 1560). Apparently it was decided that the S. I. G. transaction was satisfactory in form but that the Jasco one was not. The parties decided to recast the Jasco transaction as a "sale" to Development (P–67, III 945; D–578, IV 1560–64).[4] I. G.'s representatives pointed out that such a sale "appeared to be to our advantage" and that "Mr. Duisberg would certainly agree to such a further sale" (D–578, IV 1560).

On the record there can be no possible doubt that Duisberg was, in the words of the court below, "just another dummy used to hide the real ownership of I. G. property" (IV 1710). Indeed it is inconceivable that Jersey could have regarded the "sale" of the Jasco shares to him as a genuine transaction in view of the absence of any apparent reason why Duisberg, "a private citizen working in the capacity of a chemist and patent attorney" (D–392, IV 1383), should, on Jersey's suggestion, decide for his own purposes to buy a one-half interest in Jasco, and in view also of Duisberg's readiness first to give an option to Jasco and later to consent at I. G.'s request to a resale to Development. And since the Jasco transaction which was decided upon by the Jersey representatives and Duisberg at the conference of August 31, 1939, was so obviously a sham, we think it inconceivable that the "purchase" of the

[4] Still later the transaction was again recast as a sale to trustees for Development (Fdgs. 67–70, I 137–39).

S. I. G. shares, arranged at the same conference and for the same avowed purpose of "protecting" that stock interest in the event of war and preventing its seizure by an Alien Property Custodian, could have been intended as a genuine transaction.

In the foregoing we have not attempted to show the close relationship in time and purpose which the record reveals between the S. I. G. stock "purchase" and the other transactions which the courts have held to be sham—the USAC stock "purchase" and the purported assignments of S. I. G. and Jasco patents—all of which were initiated within a period of a few weeks. We think that even the very summary discussion of the evidence which has been possible within the limited scope of this conditional cross-petition for writ of certiorari is sufficient to disclose that the crucial finding that the S. I. G. transaction was unrelated to any other is clearly erroneous and that the courts below committed serious error in giving effect to that transaction. We therefore respectfully suggest that if this Court should determine to review any aspects of this case, it would be appropriate for it to take that opportunity to correct the error committed by the courts below on this point.

CONCLUSION

For the foregoing reasons, we respectfully submit that, in the event this Court should grant the

petition for writ of certiorari in No. 576, this conditional cross-petition for writ of certiorari should also be granted.

PHILIP B. PERLMAN,
Solicitor General.

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